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C O N F I D E N T I A L BEIJING 003272

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NSC FOR EVAN MEDEIROS

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TAGS: EFIN ETRD EINV PREL CN

SUBJECT: ASSISTANT FINMIN ZHU GUANGYAO SUGGESTS FORMAT FOR  
S&ED II, DEFENDS INDIGENOUS INNOVATION

REF: BEIJING 3209

Classified By: Deputy Chief of Mission Robert Goldberg. Reasons 1.4 (b  
, d)

¶1. (C) Summary: At a December 4 meeting with DCM, Assistant Minister of Finance Zhu Guangyao said there is broad consensus in the PRC that the United States and China must move beyond purely bilateral concerns to focus on regional and global issues. He proposed the S&ED II economic track discuss post-financial crisis issues, international financial market stability, international financial architecture reform, and trade and protectionism. He noted MOF DG Zou Jiayi will visit Washington January 6-8 to review implementation of S&ED I outcomes and to discuss the S&ED II economic track agenda. Zhu defended the PRC's new accreditation system for national indigenous innovation products, arguing it is an IPR issue that does not violate S&ED commitments. End summary.

¶2. (C) Assistant Minister of Finance Zhu Guangyao, at a December 4 meeting with DCM, said Vice Premier Wang Qishan believes the United States and China should move beyond bilateral concerns. Zhu said there is now a broad consensus in the PRC that our two governments should engage each other on regional and global issues.

¶3. (C) Zhu proposed four main topics for the economic track of S&ED II: post-financial crisis issues, including the G20, macroeconomic policy, foreign direct investment, and exchange rates (the latter to be discussed privately); international financial market stability in the wake of the Dubai debt crisis; reform of the international financial architecture; and trade and protectionism, including the investment climate. Zhu said MOF awaits a USG response to its initial S&ED II recommendations. Zhu suggested we coordinate with MFA on dates for S&ED II.

¶4. (C) Zhu noted the importance of monitoring outcomes agreed at S&ED I as a foundation for a strong S&ED II. We need a framework on energy and environment and in other areas, similar to the Ten Year Framework, in order to lift S&ED beyond a talk shop, Zhu said. Zhu agreed that we should hold the third Investment Forum soon but did not propose dates.

¶5. (C) Zhu agreed that a visit by Treasury Secretary Geithner would add momentum to S&ED II preparations and to the bilateral relationship. He said we should work out in advance the substantive issues both sides will raise during the visit, including climate change finance, anti-protectionism, and the exchange rate. Zhu said the January 6-8 visit of MOF DG Zou Jiayi to Washington will be an opportunity to continue these preparations. DCM warned we

must not over-script the Geithner visit if we want it to be successful.

¶ 6. (C) DCM raised the PRC's new accreditation system for national indigenous innovation products (reftel), noting that it undermines S&ED and JCCT commitments, is protectionist, is bad for innovation, is a step backward from accession to the WTO Government Procurement Agreement, is not transparent, and harms the bilateral relationship. Zhu did not agree with the USG interpretation of China's S&ED commitments regarding treatment of foreign invested enterprises and government procurement, arguing that the accreditation system is an IPR issue and not a trade nor a government procurement issue. Zhu said the PRC must encourage indigenous IPR for the economy to continue to grow.

HUNTSMAN